

March 18, 2011

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MAR 24 2011

Re: Crexendo Business Solutions, Inc  
Docket No. T-20737A-10-0144

DOCKETED BY *MM*

Dear Pam:

Pursuant to your request, I am responding formally to the Staff's questions in this letter. As I discuss in my responses, Crexendo is already a substantial presence in Arizona, and we intend to make that presence much larger. We already have in place plans to spend and hire substantially in this State. Our CEO, Steve Mihaylo, was the Arizona entrepreneur of the year in 1995 due to the large number of jobs he created. Steve has a history of creating jobs and opportunity in Arizona, and he intends to do that again. I am hopeful we can have an approval in place quickly so planned expansion can take place expeditiously.

I will now review the questions raised by the staff:

1. Please describe Crexendo's plans for investment in Arizona, on an annual basis, for a period of 3 to 5 years.

In 2010 Crexendo spent approximately \$2,000,000 purchasing and remodeling its headquarters in Tempe. Also during 2010 Crexendo hired an engineering team of 9 people to develop telecom applications, each of whom are highly-paid skilled employees. We also hired a director of purchasing who works in the Tempe office. Additionally, two Crexendo sales employees who were transferred to the Tempe office in 2010. Our sales teams are skilled SEO/Web professionals, and tend to be well compensated.

We have approved plans for substantial growth, based upon our regulating approval, which we expected would already have been secured. We have approved expenses of \$1,000,000 to build a data center in our Tempe office, which will also require employee staffing.

Starting in the middle of 2011 we intend to ramp up hiring, the timing of which is based on the expected telecom approval. We are intending for our Chief Financial Officer, our Treasurer and Controller to move to the Tempe office in the summer of 2011. They are currently looking at real estate in the Phoenix area.

We have also directed our national sales manager to move to the Tempe headquarters over the summer. He will be hiring a national sales force for Crexendo which will be based in the Tempe office (they will sell web services and enterprise telecom services). These will all be high paying jobs.

We fully expect to have over 100 employees in the Tempe office by the middle of 2012. We also have plans to have substantially more employees there as the Crexendo business increases. We purchased a building that could have almost 200 employees, fully intending to have that many on staff, with additional potential hires in the State. Our intention in most departments is to replace retiring or resigning employees with hires in our Arizona office.

Our intention and belief is we will be a substantial presence, employer, and taxpayer in Arizona.

2. Please describe Crexendo's revenue projections for Arizona, on an annual basis, for a period of 3 to 5 years.

We are a public company—and we have not publicly disclosed revenue projections to our shareholders, so I can't provide what could be material non-public information. As you can see however, from the answer to the first question, we would expect substantial revenues to be realized in Arizona.

3. You stated that with respect to StoresOnline that the business model has changed.

- a. Describe the changes to the business model and the management team that mitigate the possibility that the actions that generated the StoresOnline complaints will occur?

As I believe you know, StoresOnline (SOL) sells tools, training and support to allow the purchaser to develop their own web-site on the World Wide Web. The access to the software and services is sold in a seminar setting. As requested I will discuss the current process which has been substantially updated over the last two years. SOL sells in a "bifurcated" seminar setting; there is the original meeting, called a "preview." At the preview large numbers of potential customers are solicited by mail to attend; the solicitations are mailed to entrepreneurs, SOHO (small office, home office) and people who have expressed an interest in starting a business. At the preview (typically 1.5- 2.0 hours) the attendees are introduced to SOL, its products and services. It is explained what SOL does, who it can help, and who it is not right for. Those who are interested in SOL and meet certain criteria (primarily having a computer, high speed internet access, and a checking account) are provided access to our Cloud based software, our customer service and our "storebuilder" platform. They leave the preview with complete access to all of our software, and the ability to build a store. They also receive access to the all day seminar, the "workshop." The charge for this is typically \$99.00.

The workshop is held approximately two weeks later. At the workshop additional tools and service upgrades are available for purchase. The package upgrades include the access to build an unlimited amount of website storefronts. We provide complete disclosure of what our software and services can and cannot do. Perhaps most importantly, before

anyone has the ability to spend more than \$99.00 they have had at least two weeks to fully test the software, see if it is right for them, and see if it is something they wish to pursue. Under our older model customers did not get the right to use the software until a they purchased at the workshop. That change alone has made a substantial difference. On top of that, we have increased our disclosure and information provided to customers.

- a. You state that you have a robust compliance program and strive to satisfy your clients. Describe how the robust compliance program mitigates the possibility that the actions that generated the StoresOnline complaints will occur?

We have a detailed compliance program.

- We have twice yearly sales conferences where I talk to the sales teams. During the conferences, I discuss what must be done to comply with rules, regulations and settlements we have entered into- and again stress the importance of compliance.
- We record each presentation. My office listens to every speaker at least once each week. Every speaker is aware of this, and knows that at least once each week a presentation of theirs is going to be reviewed in totality.
- We review the presentations against our general compliance rules. If there are any minor violations relative to our general compliance rules we direct compliance through a reminder email. If more than just minor adjustment is needed we impose more aggressive corrective actions, which include fines, suspension or termination. Over the years, we have suspended and fired speakers for failing to adhere to our compliance policies or to comply with an agreement.
- On a regular basis, (usually once a month), I personally review a sales team and their activities.

We continually stress to our employees the importance of adhering both to what we have agreed, and what we as a Company require. We have a robust compliance department whose job is to assure compliance with these policies

I believe the Compliance program does in fact mitigate the possibility that further actions, or violations of actions will occur.

4. Staff's understanding is that Crexendo has been in operation for 2 and one half years. Is our understanding correct? If so, what services, by state, has Crexendo been providing? If our understanding is incorrect, please provide the correct information regarding when Crexendo began providing service and what services it provides in the states that it serves.

Crexendo has been in business for over two years. In that time it has been providing enterprise web building services, SEO (search engine optimization), and a variety of web related services. Please review <http://www.crexendo.com> for more information on services provided. Crexendo provides services throughout the United States to businesses that want us to provide SEO services, CRO services, link-building services, website building services and Cloud based hosting services, instead of having staff to perform these functions on their staff at a much higher expense. The basic difference between, StoresOnline & Crexendo is that Crexendo performs these services to business and StoresOnline teaches its customers to do these services themselves.

We anticipate our response will meet the Staff's approval. If further clarification is necessary please contact me directly.

Sincerely,

A handwritten signature in black ink, appearing to read "Ross Weber", with a stylized flourish at the end.

Ross Weber – Associate General Counsel  
On behalf of Jeff Korn – Chief Legal Officer